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# The challenges of microprudential supervision in an exceptionally low interest rate environment

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Shunsuke Shirakawa

Financial Services Agency, Japan

## Growing prevalence of very low rates (1/2, as of end-Dec 2011)

	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y	11Y	12Y	13Y	14Y	15Y	20Y	30Y
Switzerland	0.33	-0.07	-0.07	-0.02	0.13	0.36	0.51	0.53	0.55	0.64	0.71	0.77	0.84	0.90	0.97	1.01	1.00
Japan	0.11	0.13	0.17	0.25	0.34	0.41	0.55	0.65	0.83	0.98	1.07	1.15	1.23	1.32	1.40	1.75	1.91
Germany	-0.08	0.14	0.27	0.50	0.75	1.07	1.33	1.52	1.67	1.83	1.92	2.02	2.12	2.22	2.32	2.48	2.36
Denmark	-0.01	0.04	0.08	0.28	0.56	0.85	1.07	1.28	1.46	1.63	1.67	1.70	1.74	1.77	1.81	1.95	2.08
Netherlands	-0.13	0.13	0.53	0.90	1.16	1.54	1.76	1.92	2.06	2.18	2.21	2.24	2.28	2.31	2.34	2.55	2.47
Finland	-0.09	0.27	0.59	0.94	1.07	1.72	1.92	2.12	2.21	2.30	2.37	2.44	2.51	2.59	2.66		
Austria	0.37	0.90	1.06	1.43	2.14	2.42	2.72	2.78	2.85	2.87	2.96	3.04	3.12	3.21	3.29	3.34	3.39
France	0.15	0.74	1.13	1.49	1.85	2.29	2.61	2.81	3.04	3.14	3.21	3.28	3.35	3.42	3.50	3.61	3.65
Belgium	0.58	2.11	2.57	2.78	3.06	3.42	3.52	3.66	3.85	4.06	4.08	4.10	4.12	4.14	4.16	4.22	4.28
Sweden	1.14	0.83	0.87	0.90	1.02	1.12	1.22	1.35	1.48	1.61	1.63	1.65	1.67	1.69	1.72	1.83	2.04
Ireland		7.21	7.54	7.45	7.36	7.75	8.14	8.27	8.26	8.22	8.18	8.14	8.10	8.06	8.01		
Norway	1.19	1.22	1.39	1.55	1.73	1.91	2.07	2.24	2.30	2.37							
Canada	0.93	0.95	0.99	1.18	1.27	1.38	1.50	1.67	1.84	1.94	2.00	2.07	2.14	2.20	2.27	2.49	2.49
UK	0.32	0.32	0.48	0.76	1.05	1.25	1.49	1.69	1.80	1.98	2.14	2.31	2.39	2.47	2.55	2.83	3.05
Italy	3.74	5.05	5.69	5.70	6.15	6.29	6.51	6.46	6.43	7.03	7.01	6.99	6.98	6.96	6.94	7.20	6.78
Spain	2.82	3.16	3.26	3.66	4.05	4.39	4.56	4.59	4.83	5.04	5.17	5.29	5.42	5.55	5.67	5.84	5.83
US	0.10	0.24	0.36	0.59	0.83	1.09	1.35	1.52	1.70	1.88	1.93	1.98	2.03	2.08	2.13	2.34	2.90
Israel	3.14	2.71	2.98	3.26	3.45	3.74	4.04	4.21	4.37	4.54	4.62	4.71	4.79	4.88	4.96		
Portugal	7.92	14.50	16.18	13.80	14.96	15.63	15.44	15.21	14.75	12.79	12.91	13.04	13.17	13.30	13.43	11.47	9.50
Greece					49.78	43.73	38.87	40.31	38.01	31.68	30.61	29.54	28.46	27.39	26.32	23.75	21.18

	below 0%
	less than 0.5%
	less than 1.0%
	1.0% or above

Source: Bloomberg

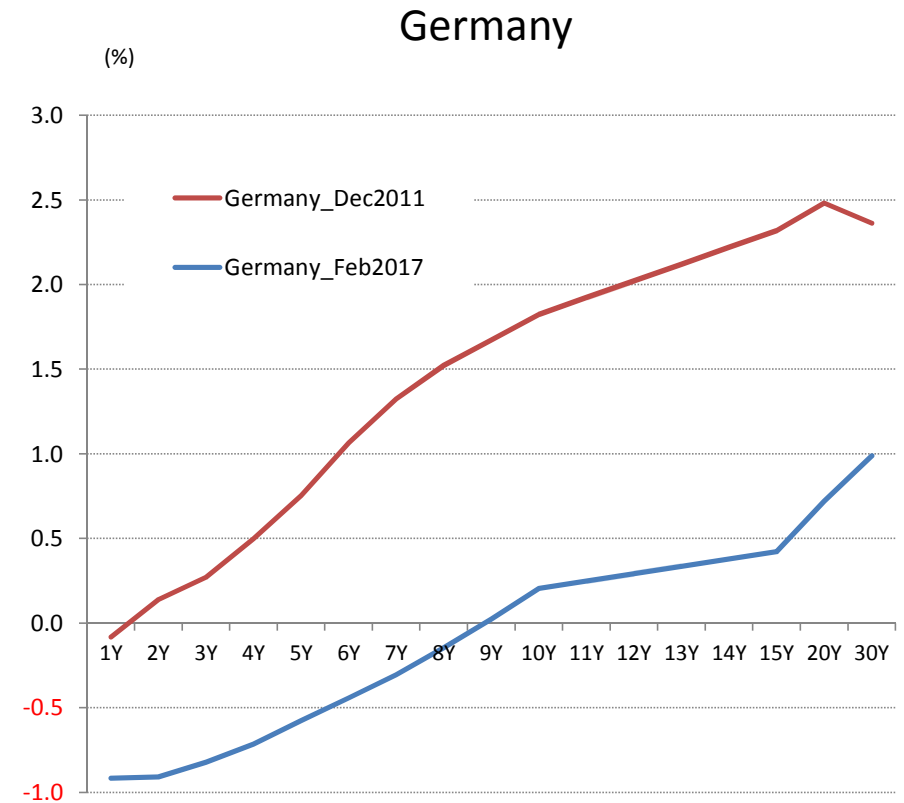
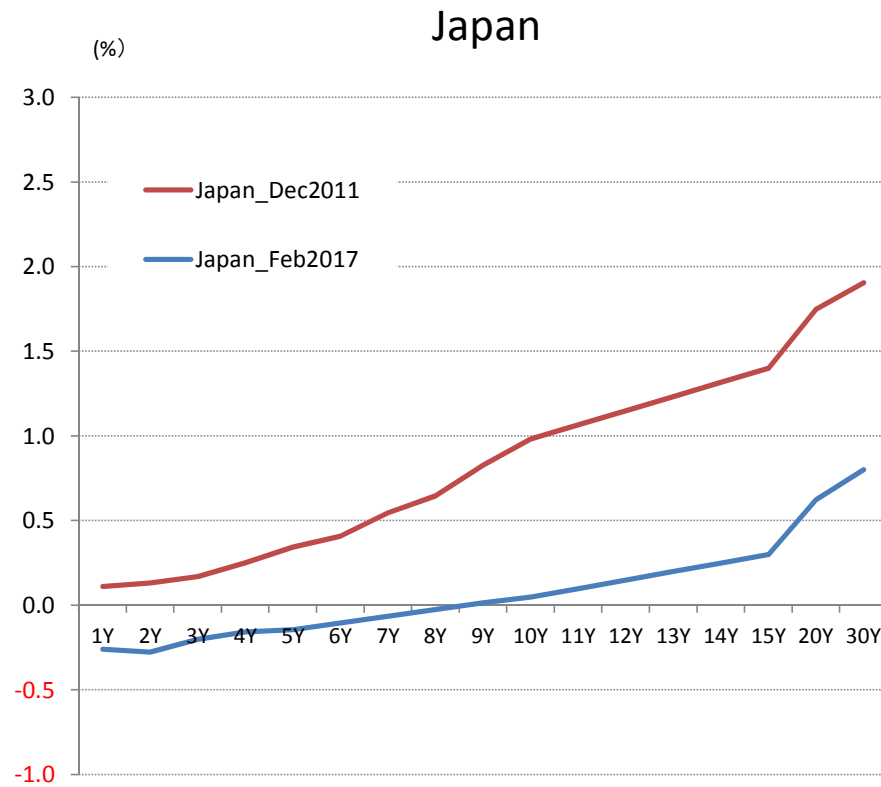
## Growing prevalence of very low rates (2/2, as of end-Feb 2017)

	1Y	2Y	3Y	4Y	5Y	6Y	7Y	8Y	9Y	10Y	11Y	12Y	13Y	14Y	15Y	20Y	30Y
Switzerland	-1.04	-1.02	-0.93	-0.86	-0.74	-0.64	-0.52	-0.40	-0.35	-0.26	-0.20	-0.14	-0.11	-0.08	-0.04	0.11	0.22
Japan	-0.26	-0.28	-0.20	-0.16	-0.14	-0.11	-0.07	-0.02	0.01	0.05	0.10	0.15	0.20	0.25	0.30	0.62	0.80
Germany	-0.92	-0.91	-0.82	-0.71	-0.57	-0.44	-0.31	-0.14	0.02	0.21	0.25	0.29	0.34	0.38	0.42	0.72	0.99
Denmark	-0.71	-0.70	-0.60	-0.50	-0.41	-0.27	-0.13	0.02	0.17	0.49	0.53	0.58	0.63	0.68	0.72	0.96	
Netherlands	-0.84	-0.83	-0.77	-0.69	-0.41	-0.23	-0.03	0.17	0.32	0.48	0.53	0.57	0.62	0.67	0.72	0.84	1.09
Finland	-0.75	-0.76	-0.70	-0.55	-0.28	-0.25	-0.07	0.01	0.25	0.35	0.43	0.52	0.61	0.69	0.78	0.93	1.22
Austria	-0.74	-0.76	-0.72	-0.60	-0.44	-0.23	-0.11	0.08	0.25	0.43	0.54	0.65	0.76	0.87	0.98	1.11	1.42
France	-0.55	-0.54	-0.38	-0.19	0.01	0.09	0.26	0.49	0.71	0.89	0.96	1.04	1.11	1.19	1.26	1.55	1.86
Belgium	-0.62	-0.58	-0.51	-0.42	-0.22	-0.10	0.15	0.38	0.53	0.70	0.77	0.84	0.91	0.98	1.04	1.11	1.69
Sweden	-0.69	-0.67	-0.53	-0.40	-0.15	-0.04	0.08	0.29	0.41	0.52	0.65	0.78	0.90	1.03	1.16	1.51	
Ireland	-0.53	-0.48	-0.43	-0.39	-0.07	0.16	0.41	0.64	0.76	0.87	0.97	1.06	1.15	1.24	1.33	1.73	1.97
Norway	0.50	0.61	0.77	0.94	1.08	1.23	1.35	1.50	1.60	1.70							
Canada	0.59	0.76	0.86	1.01	1.11	1.16	1.31	1.41	1.52	1.63	1.70	1.77	1.83	1.90	1.97	2.30	2.34
UK	0.08	0.09	0.23	0.30	0.55	0.64	0.79	0.93	1.07	1.15	1.26	1.38	1.42	1.46	1.50	1.67	1.74
Italy	-0.27	-0.04	0.33	0.46	0.82	1.14	1.46	1.76	1.85	2.08	2.15	2.21	2.28	2.35	2.42	2.70	3.18
Spain	-0.29	-0.14	0.04	0.17	0.49	0.68	1.07	1.31	1.49	1.64	1.71	1.78	1.85	1.93	2.00	2.45	2.83
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Israel	0.12	0.38	0.60	0.79	0.98	1.45	1.68	2.08	2.13	2.19	2.25	2.13	2.19	2.25	2.30	2.64	3.33
Portugal	-0.09	-0.03	0.50	1.22	1.79	2.54	3.17	3.43	3.67	3.85	3.98	4.11	4.24	4.37	4.50	4.62	4.81
Greece	5.90	7.91	7.80	7.70	7.59	7.48	7.38	7.27	7.16	7.06	7.16	7.26	7.36	7.47	7.57	7.59	

	below 0%
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Source: Bloomberg

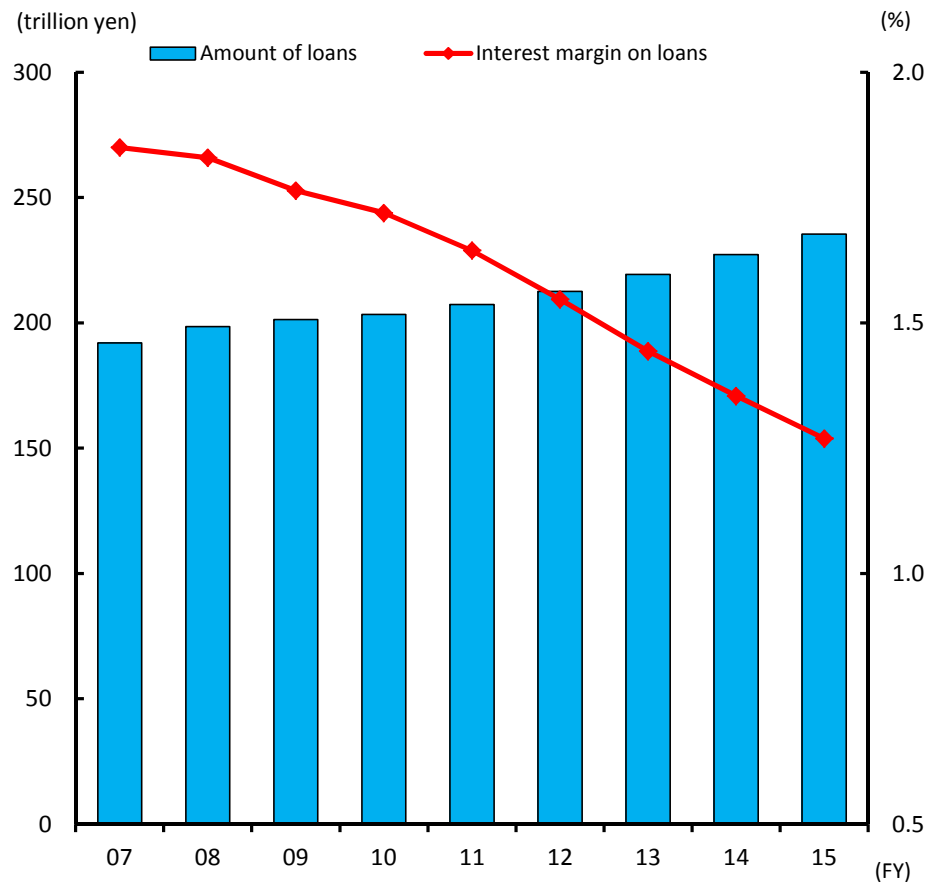
# Flattening of yield



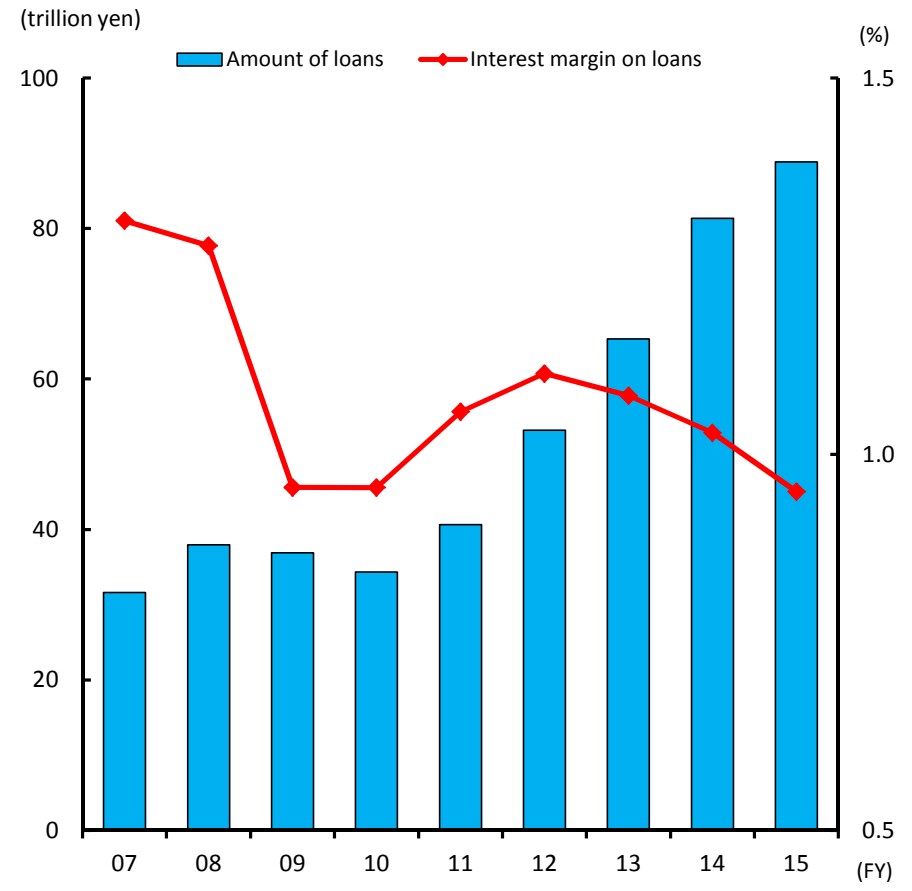
Source: Bloomberg

# Lending margin and loans outstanding

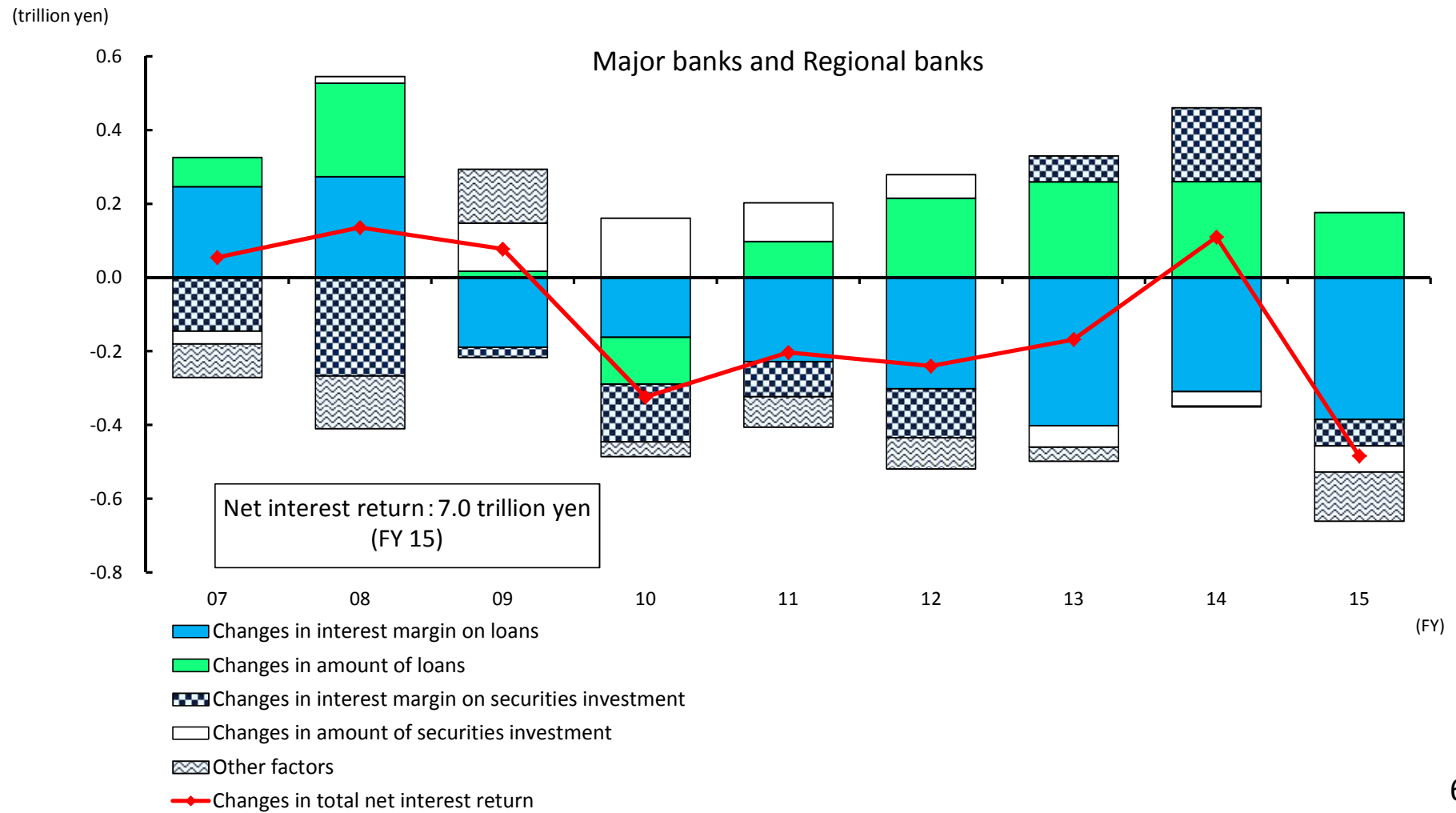
## Regional banks



## Overseas businesses of major banks

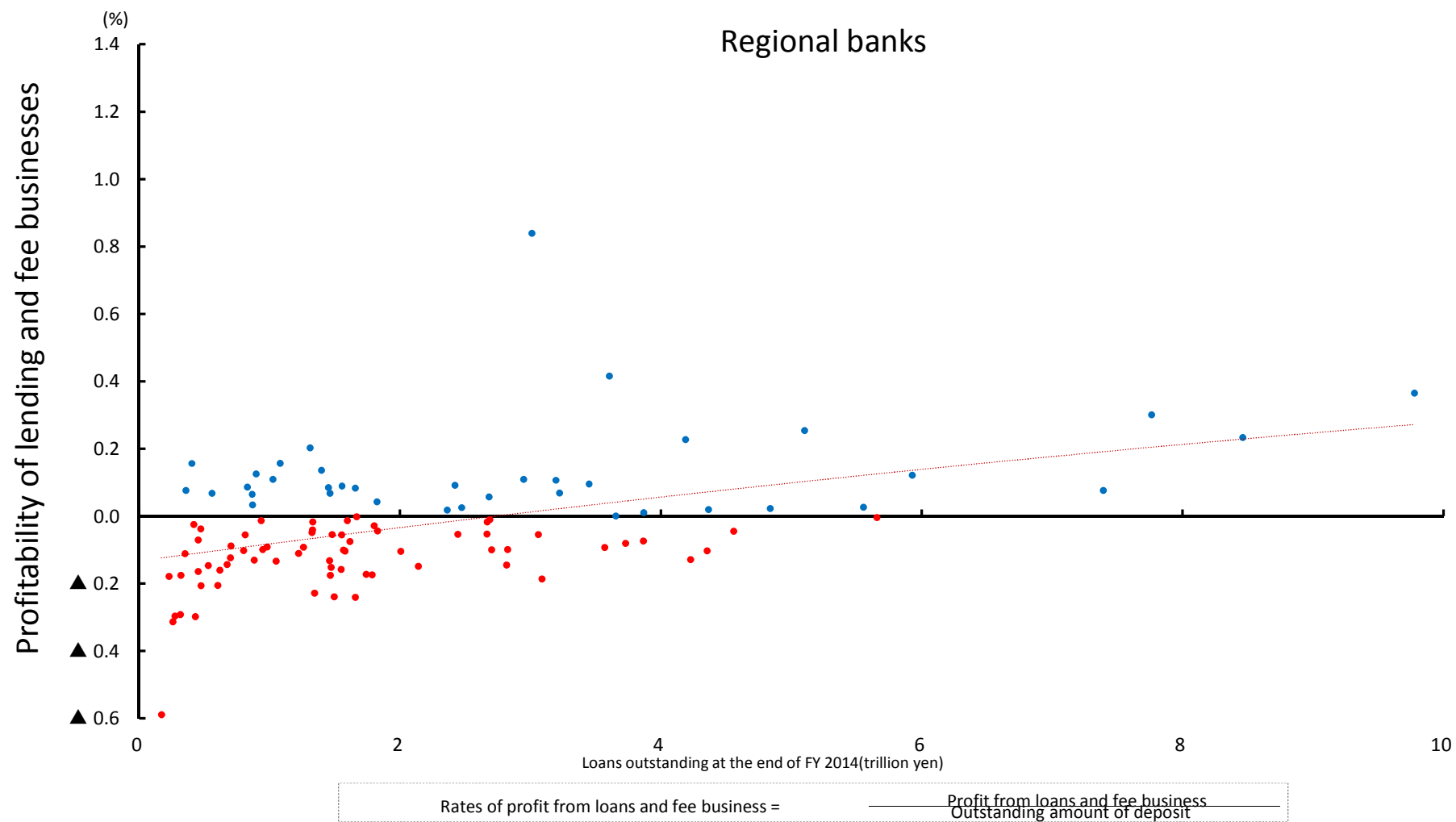


## Contributing factors of changes in net interest income (exc. Stocks)



Source: JFSA

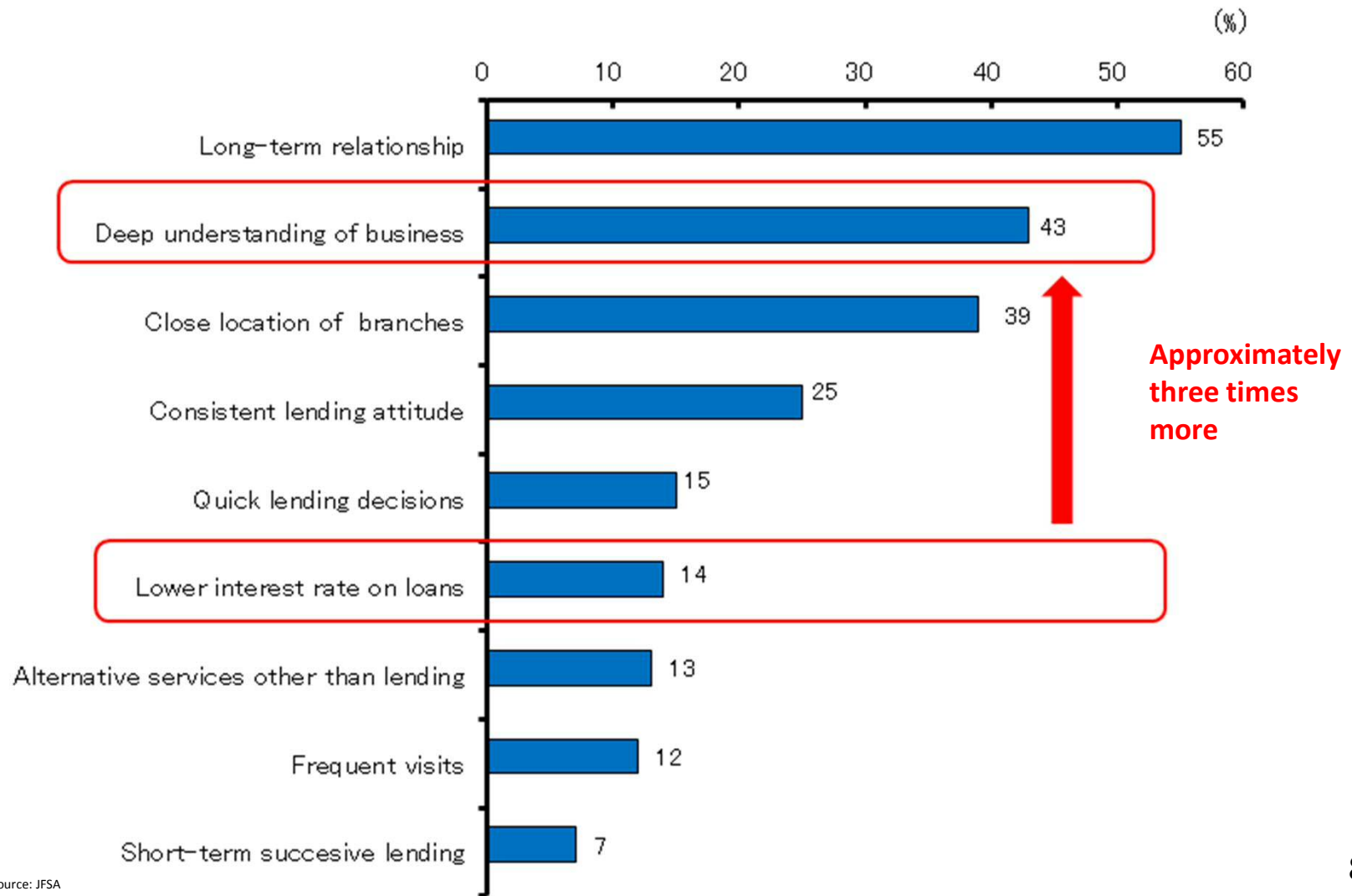
# Estimated profitability of lending and fee businesses in 2025



Source: JFSA

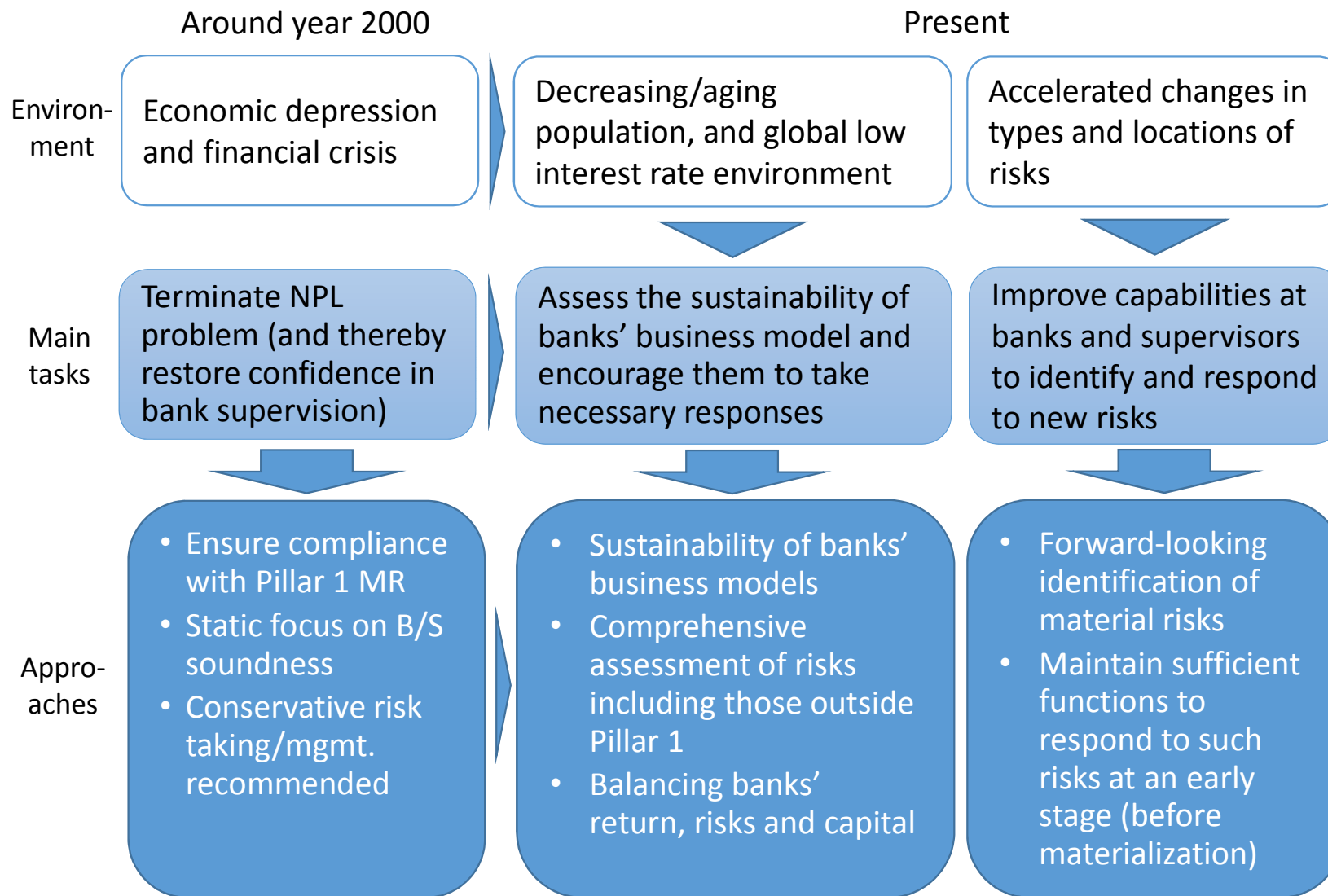
Note: Profitability of banks should account for returns from securities investment, in addition to profit from loans and fee business.

## What corporate customers expect from their main-banks

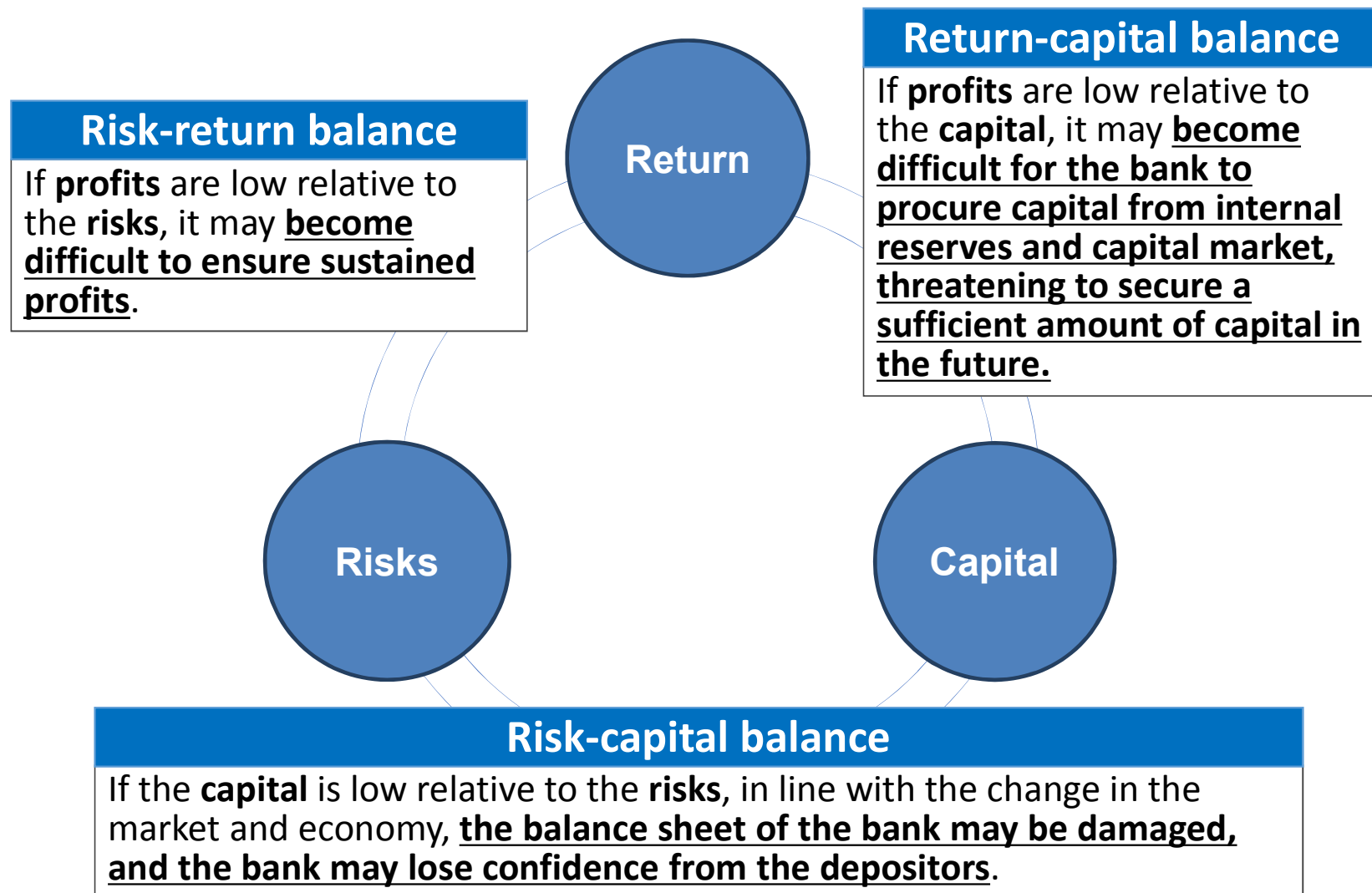




# Evolutions in supervisory tasks and approaches



## Elements to ensure sustainable banking business



## Supervisory responses and communication with the banks

Monitoring points	Pillar 1 minimum requirement (MR)	Non compliant	Close Distance to the MR Far	
	Risks outside Pillar 1		Close Distance to the MR including risks outside Pillar 1 Far	
	Balance of return, risks and capital		Unbalanced	Balanced
	Sustainability of business model		Low	High
	Probability to fall below the MR			
Supervisory Approaches	Corrective actions	Supervisory responses and communications with the bank		Pursue best practices
	Apply common Pillar 1 standards. Decide the remedial actions.	<ol style="list-style-type: none"> <li>1) Take each bank's business model risks into account.</li> <li>2) Identify the potential material risks and communicate with the banks.</li> <li>3) Have the banks to develop the remedial plan to address the risks.</li> <li>4) Continuously monitor the remedial actions of the banks.</li> </ol>		Respect banks' diversity and encourage their own initiatives to pursue the best practices.